

**THE CITY OF IUKA, KANSAS**  
**FINANCIAL STATEMENTS**  
**For the Year Ended**  
**December 31, 2008**

**VONFELDT, BAUER & VONFELDT, CHTD.**  
**Certified Public Accountants**  
**Larned, Kansas 67550**

The City of Iuka, Kansas  
Financial Statements  
For the Year Ended December 31, 2008

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## INDEPENDENT AUDITORS' REPORT

To the City Council  
City of Iuka, Kansas

We have audited the accompanying financial statements of the City of Iuka, Kansas, as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the City of Iuka, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial (and summarized) comparative financial information has been derived from the City's 2007 financial statements and, in our report dated January 5, 2010, we expressed an unqualified opinion on the financial statements taken as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Iuka, Kansas as of December 31, 2008, or the changes in its financial position, or where applicable, its cash flows for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City of Iuka, Kansas, as of December 31, 2008 and its cash receipts and expenditures, and budget to actual comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

  
VONFELDT, BAUER & VONFELDT, CHTD.  
Certified Public Accountants

January 25, 2010

City of Iuka, Kansas  
Summary of Cash Receipts, Expenditures and Unencumbered Cash  
For the Year Ended December 31, 2008

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances
Governmental Type Funds:		
General Fund	\$ 103,205.65	\$ 0.00
Special Revenue Funds:		
Special Highway Fund	10,108.64	0.00
Special Fire Fund	49,867.74	0.00
Debt Service Fund:		
Bond and Interest Fund	8,181.04	0.00
Proprietary Type Funds:		
Enterprise Funds:		
Electric Utility Fund	97,921.66	0.00
Water Utility Fund	<u>38,112.37</u>	<u>0.00</u>
Total Reporting Entity	<u>\$ 307,397.10</u>	<u>\$ 0.00</u>
(Memorandum Only)		

The notes to the financial statements are an integral part of this statement.

## Statement 1

<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Outstanding Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
\$ 96,040.23	\$ 99,645.02	\$ 99,600.86	\$ 870.72	\$ 100,471.58
5,234.81	15,343.45	0.00	0.00	0.00
3,686.09	52,296.15	1,257.68	0.00	1,257.68
46,193.50	46,340.00	8,034.54	0.00	8,034.54
312,176.71	345,352.88	64,745.49	28,638.26	93,383.75
15,281.94	15,250.78	38,143.53	0.00	38,143.53
<u>\$ 478,613.28</u>	<u>\$ 574,228.28</u>	<u>\$ 211,782.10</u>	<u>\$ 29,508.98</u>	<u>\$ 241,291.08</u>

## Composition of Cash:

## Checking Account:

- First State Bank	\$ 53,312.70
Less Outstanding Checks	(1,225.34)

## Money Market Accounts:

- First State Bank	57,965.09
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## Certificates of Deposit:

- First State Bank	<u>131,238.63</u>
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Total	<u>\$ 241,291.08</u>
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City of Iuka, Kansas  
Summary of Expenditures - Actual and Budget  
(Budgeted Funds Only)  
For the Year Ended December 31, 2008

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>
Governmental Type Funds:		
General Fund	\$ 137,025.00	\$ 0.00
Special Revenue Funds:		
Special Highway Fund	16,312.00	0.00
Special Fire Fund	1,487.00	0.00
Debt Service Fund:		
Bond and Interest Fund	51,343.00	0.00
Proprietary Type Funds:		
Enterprise Funds:		
Electric Utility Fund	368,164.00	0.00
Water Utility Fund	34,894.00	0.00

The notes to the financial statements are an integral part of this statement.

## Statement 2

<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Over (Under)</u>
\$ 137,025.00	\$ 99,645.02	\$ (37,379.98)
16,312.00	15,343.45	(968.55)
1,487.00	52,296.15	50,809.15
51,343.00	46,340.00	(5,003.00)
368,164.00	345,352.88	(22,811.12)
34,894.00	15,250.78	(19,643.22)



City of Iuka, Kansas  
GENERAL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2008  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2007)

	Prior Year Actual	Current Year		
		Actual	Budget	Variance Over (Under)
Cash Receipts				
Taxes and Shared Revenue:				
Ad Valorem Property Tax	\$ 8,004.38	\$ 7,881.05	\$ 7,904.00	\$ (22.95)
Back Tax	34.55	39.58	0.00	39.58
Motor Vehicle Tax	1,628.75	1,506.58	1,249.00	257.58
Recreational Vehicle Tax	24.26	6.38	20.00	(13.62)
16/20M Vehicle Tax	58.97	29.48	56.00	(26.52)
Sales Tax	19,881.03	20,673.13	24,000.00	(3,326.87)
Franchise Fees	5,386.35	5,548.46	6,800.00	(1,251.54)
Interest	5,384.05	3,859.44	200.00	3,659.44
Hall Rental	830.00	630.00	650.00	(20.00)
Miscellaneous	1,677.99	466.13	300.00	166.13
Contributions	400.00	400.00	0.00	400.00
Transfer from Electric	0.00	55,000.00	0.00	55,000.00
Total Cash Receipts	<u>43,310.33</u>	<u>96,040.23</u>	<u>\$ 41,179.00</u>	<u>\$ 54,861.23</u>
Expenditures				
Administrative Department:				
Personal Services	11,343.64	10,917.82	11,000.00	(82.18)
Contractual Services	28,790.37	24,967.72	26,000.00	(1,032.28)
Commodities	3,354.67	1,671.99	8,000.00	(6,328.01)
Capital Outlay	9,255.14	3,520.00	61,575.00	(58,055.00)
Fire Department:				
Personal Services	0.00	0.00	3,700.00	(3,700.00)
Contractual Services	0.00	0.00	3,250.00	(3,250.00)
Commodities	0.00	0.00	3,900.00	(3,900.00)
Capital Outlay	0.00	15,000.00	18,100.00	(3,100.00)
Street Department:				
Contractual Services	0.00	0.00	500.00	(500.00)
Commodities	0.00	376.50	500.00	(123.50)
Capital Outlay	0.00	43,190.99	500.00	42,690.99
Total Expenditures	<u>52,743.82</u>	<u>99,645.02</u>	<u>\$ 137,025.00</u>	<u>\$ (37,379.98)</u>
Receipts Over (Under) Expenditures	(9,433.49)	(3,604.79)		
Unencumbered Cash, Beginning	<u>112,639.14</u>	<u>103,205.65</u>		
Unencumbered Cash, Ending	<u>\$ 103,205.65</u>	<u>\$ 99,600.86</u>		

The notes to the financial statements are an integral part of this statement.

City of Iuka, Kansas  
SPECIAL HIGHWAY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2008  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2007)

	Prior Year Actual	Current Year		
		Actual	Budget	Variance Over (Under)
Cash Receipts				
State of Kansas Gas Tax	\$ 5,381.51	\$ 5,234.81	\$ 5,570.00	\$ (335.19)
Total Cash Receipts	<u>5,381.51</u>	<u>5,234.81</u>	<u>\$ 5,570.00</u>	<u>\$ (335.19)</u>
Expenditures				
Contractual Services	132.88	0.00	0.00	0.00
Capital Outlay	<u>451.76</u>	<u>15,343.45</u>	<u>16,312.00</u>	<u>(968.55)</u>
Total Expenditures	<u>584.64</u>	<u>15,343.45</u>	<u>\$ 16,312.00</u>	<u>\$ (968.55)</u>
Receipts Over (Under) Expenditures	4,796.87	(10,108.64)		
Unencumbered Cash, Beginning	<u>5,311.77</u>	<u>10,108.64</u>		
Unencumbered Cash, Ending	<u>\$ 10,108.64</u>	<u>\$ 0.00</u>		

The notes to the financial statements are an integral part of this statement.

City of Iuka, Kansas  
SPECIAL FIRE FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2008  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2007)

	Prior Year Actual	Current Year		
		Actual	Budget	Variance Over (Under)
Cash Receipts				
Taxes and Shared Revenue:				
Ad Valorem Property Tax	\$ 739.78	\$ 1,508.25	\$ 1,361.00	\$ 147.25
Back Tax	3.29	0.00	0.00	0.00
Motor Vehicle Tax	155.60	0.00	119.00	(119.00)
Recreational Vehicle Tax	2.32	0.00	2.00	(2.00)
16/20M Vehicle	5.68	0.00	5.00	(5.00)
Fire Contract	2,000.00	2,000.00	0.00	2,000.00
Donation	100.00	177.84	0.00	177.84
Grants	56,013.00	0.00	0.00	0.00
Total Cash Receipts	<u>59,019.67</u>	<u>3,686.09</u>	<u>\$ 1,487.00</u>	<u>\$ 2,199.09</u>
Expenditures				
Personal Services	1,726.10	2,613.50	0.00	2,613.50
Contractual Services	6,061.69	5,740.47	0.00	5,740.47
Commodities	800.27	2,896.43	0.00	2,896.43
Capital Outlay	<u>2,056.39</u>	<u>41,045.75</u>	<u>1,487.00</u>	<u>39,558.75</u>
Total Expenditures	<u>10,644.45</u>	<u>52,296.15</u>	<u>\$ 1,487.00</u>	<u>\$ 50,809.15</u>
Receipts Over (Under) Expenditures	48,375.22	(48,610.06)		
Unencumbered Cash, Beginning	<u>1,492.52</u>	<u>49,867.74</u>		
Unencumbered Cash, Ending	<u>\$ 49,867.74</u>	<u>\$ 1,257.68</u>		

The notes to the financial statements are an integral part of this statement.

City of Iuka, Kansas  
 BOND AND INTEREST FUND  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2008  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2007)

	Prior Year Actual	Current Year		
		Current Year Actual	Budget	Variance Over (Under)
Cash Receipts				
Taxes and Shared Revenue:				
Ad Valorem Tax	\$ 19,224.12	\$ 19,458.66	\$ 19,585.00	\$ (126.34)
Back Taxes	85.37	150.60	0.00	150.60
Motor Vehicle	2,727.90	3,496.66	3,088.00	408.66
Recreational Vehicle	40.64	38.24	50.00	(11.76)
16/20M Vehicle	99.40	49.34	138.00	(88.66)
Transfer from Electric	14,700.00	15,000.00	14,850.00	150.00
Transfer from Water	8,240.00	8,000.00	8,000.00	0.00
Total Cash Receipts	<u>45,117.43</u>	<u>46,193.50</u>	<u>\$ 45,711.00</u>	<u>\$ 482.50</u>
Expenditures				
Principal	30,000.00	35,000.00	35,000.00	0.00
Interest	13,542.50	11,337.50	11,338.00	(0.50)
Commission	1.25	2.50	5.00	(2.50)
Bond Reserve	0.00	0.00	5,000.00	(5,000.00)
Total Expenditures	<u>43,543.75</u>	<u>46,340.00</u>	<u>\$ 51,343.00</u>	<u>\$ (5,003.00)</u>
Receipts Over (Under) Expenditures	1,573.68	(146.50)		
Unencumbered Cash, Beginning	<u>6,607.36</u>	<u>8,181.04</u>		
Unencumbered Cash, Ending	<u>\$ 8,181.04</u>	<u>\$ 8,034.54</u>		

The notes to the financial statements are an integral part of this statement.

City of Iuka, Kansas  
ELECTRIC UTILITY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2008  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2007)

		Current Year		
	Prior Year Actual	Current Year Actual	Budget	Variance Over (Under)
Cash Receipts				
Interest	\$ 0.00	\$ 0.00	\$ 3,900.00	\$ (3,900.00)
Miscellaneous	2,891.00	4,138.06	0.00	4,138.06
Charge for Services	<u>244,304.03</u>	<u>308,038.65</u>	<u>228,000.00</u>	<u>80,038.65</u>
Total Cash Receipts	<u>247,195.03</u>	<u>312,176.71</u>	<u>\$ 231,900.00</u>	<u>\$ 80,276.71</u>
Expenditures				
Administration:				
Contractual Services	0.00	275.00	0.00	275.00
Production:				
Contractual Services	226,449.92	275,077.88	185,000.00	90,077.88
Commodities	21.47	0.00	0.00	0.00
Capital Outlay	7,319.00	0.00	168,314.00	(168,314.00)
Transfer to General Fund	0.00	55,000.00	0.00	55,000.00
Transfer to Bond and Interest	<u>14,700.00</u>	<u>15,000.00</u>	<u>14,850.00</u>	<u>150.00</u>
Total Expenditures	<u>248,490.39</u>	<u>345,352.88</u>	<u>\$ 368,164.00</u>	<u>\$ (22,811.12)</u>
Receipts Over (Under) Expenditures	(1,295.36)	(33,176.17)		
Unencumbered Cash, Beginning	<u>99,217.02</u>	<u>97,921.66</u>		
Unencumbered Cash, Ending	<u>\$ 97,921.66</u>	<u>\$ 64,745.49</u>		

The notes to the financial statements are an integral part of this statement.

City of Iuka, Kansas  
WATER UTILITY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2008  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2007)

	Prior Year Actual	Current Year		
		Current Year Actual	Budget	Variance Over (Under)
Cash Receipts				
Miscellaneous	\$ 3,000.00	\$ 0.00	\$ 0.00	\$ 0.00
Charge for Services	<u>15,094.38</u>	<u>15,281.94</u>	<u>0.00</u>	<u>15,281.94</u>
Total Cash Receipts	<u>18,094.38</u>	<u>15,281.94</u>	<u>\$ 0.00</u>	<u>\$ 15,281.94</u>
Expenditures				
Administration:				
Personal Services	4,014.23	4,266.54	3,400.00	866.54
Contractual Services	166.35	1,577.24	350.00	1,227.24
Production:				
Personal Services	0.00	0.00	3,500.00	(3,500.00)
Contractual Services	995.58	1,407.00	200.00	1,207.00
Capital Outlay	0.00	0.00	19,444.00	(19,444.00)
Transfer to Bond and Interest	<u>8,240.00</u>	<u>8,000.00</u>	<u>8,000.00</u>	<u>0.00</u>
Total Expenditures	<u>13,416.16</u>	<u>15,250.78</u>	<u>\$ 34,894.00</u>	<u>\$ (19,643.22)</u>
Receipts Over (Under) Expenditures	4,678.22	31.16		
Unencumbered Cash, Beginning	<u>33,434.15</u>	<u>38,112.37</u>		
Unencumbered Cash, Ending	<u>\$ 38,112.37</u>	<u>\$ 38,143.53</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF IUKA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2008

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Iuka, Kansas is a municipal corporation governed by an elected six-member council. A primary government is a legal entity or public politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. The City of Iuka has no component units as of December 31, 2008.

B. FUND ACCOUNTING

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City of Iuka, Kansas for the year of 2008:

GOVERNMENTAL FUNDS

General Fund--to account for all unrestricted resources except those required to be accounted for in an other fund.

Special Revenue Funds--to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt Service Funds--to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, and the financing of special assessments which are general obligations of the City of Iuka, Kansas.

PROPRIETARY FUNDS:

Enterprise Funds--to account for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs (expenses), including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges--or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. BASIS OF ACCOUNTING

Statutory Basis of Accounting: The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

#### C. BASIS OF ACCOUNTING (Cont'd.)

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America: The basis of accounting described above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

#### D. CASH AND INVESTMENTS

Cash balances from all funds are combined and invested to the extent available. Cash and investments consist of interest bearing checking accounts, money market accounts and certificates of deposit. Earnings from these investments are allocated to designated funds. Cash and investments are stated at cost.

#### E. COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompany individual fund financial statements in order to provide an understanding of changes in the City's financial position and operation. Some prior year balances have been reclassified to conform with the current year presentation.

#### F. TOTAL COLUMNS (MEMORANDUM ONLY)

Total Columns on the Summary of Receipts, Expenditures and Unencumbered Cash are captioned "Memorandum Only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; and it is, therefore, not comparable to a consolidation.

#### G. REIMBURSED EXPENSES

The City records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures (or expenses) are properly offset by the reimbursements.

#### H. USE OF ESTIMATES

The preparation of financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.



## Note 2 - BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, fiduciary funds and permanent funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

## Note 3 - COMPLIANCE WITH KANSAS STATUTES

1. Funds on deposit at First State Bank were under secured during the year in violation of K.S.A. 9-1402.
2. Expenditures exceeded the authorized budget in the Special Fire Fund in violation of K.S.A. 79-2935.

Management is aware of no other statutory violations for the period covered by the audit.

## Note 4 - DEPOSITS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

#### Note 4 - DEPOSITS (Cont'd.)

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. There were no designated "peak periods" during the year. All deposits were legally secured at December 31, 2008.

At December 31, 2008, the City's carrying amount of deposits was \$241,291.08 and the bank balance was \$242,516.42. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$242,516.42 was covered by federal depository insurance.

#### Note 5 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; thefts of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains coverage from commercial insurance companies in order to effectively manage risk. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years. The City does not participate in a public entity risk pool.

#### Note 6 - INTERFUND TRANSACTIONS

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
Electric Utility	General	12-825d	\$ 55,000.00
Electric Utility	Bond and Interest	12-825d	15,000.00
Water Utility	Bond and Interest	12-825d	8,000.00

## Note 7 - LONG TERM DEBT

Changes in long-term liabilities for the municipality for the year ended December 31, 2008, were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>
General Obligation Bond:				
To be paid with Tax Levies and Utility Revenues:				
Water System Series 1991	7.20%-7.75%	1/1/1991	\$ 420,000.00	10/1/2011

Total Contractual Indebtedness

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
PRINCIPAL:				
General Obligation Bond:				
To be paid with Tax Levies and Utility Revenues:				
Water System Series 1991	<u>\$ 35,000.00</u>	<u>\$ 40,000.00</u>	<u>\$ 45,000.00</u>	<u>\$ 120,000.00</u>
 TOTAL PRINCIPAL	 <u>35,000.00</u>	 <u>40,000.00</u>	 <u>45,000.00</u>	 <u>120,000.00</u>
INTEREST:				
General Obligation Bond:				
To be paid with Tax Levies and Utility Revenues:				
Water System Series 1991	<u>\$ 8,765.00</u>	<u>\$ 6,227.50</u>	<u>\$ 3,307.50</u>	<u>\$ 18,300.00</u>
 TOTAL INTEREST	 <u>8,765.00</u>	 <u>6,227.50</u>	 <u>3,307.50</u>	 <u>18,300.00</u>
 TOTAL PRINCIPAL & INTEREST	 <u><u>\$ 8,765.00</u></u>	 <u><u>\$ 6,227.50</u></u>	 <u><u>\$ 3,307.50</u></u>	 <u><u>\$ 18,300.00</u></u>

<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions / Payments</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
<u>\$ 155,000.00</u>	<u>\$ 0.00</u>	<u>\$ 35,000.00</u>	<u>\$ 120,000.00</u>	<u>\$ 11,337.50</u>
<u>\$ 155,000.00</u>	<u>\$ 0.00</u>	<u>\$ 35,000.00</u>	<u>\$ 120,000.00</u>	<u>\$ 11,337.50</u>